Ag Growth Industries

1998 Annual Report

focused innovation

contents

Investor Relations Office
Calgary, Alberta

Chairman's & President's Report

We welcome shareholders and potential investors to Ag Growth Industries' first annual report. The past year has proven to be dynamic and successful for the company as management has focused on rolling out our acquisition based business plan. Ag Growth began trading under the name Ultra Capital Inc. on the Alberta Stock Exchange on June 26, 1997, and less than six months later gained the approval of the management and shareholders of Batco Manufacturing Ltd. to complete a reverse takeover of the publicly traded company. The addition of Batco was quickly followed by the acquisition of Wheatheart Hydrostatic and Machine of Saskatoon, Saskatchewan. We are committed to achieving growth in shareholder value and capitalizing on the abundance of opportunities presented by the dynamic transformation underway in the agricultural sector. The addition of these two successful private companies represent important first steps in this direction.

Mr. Jack Lee, Chairman

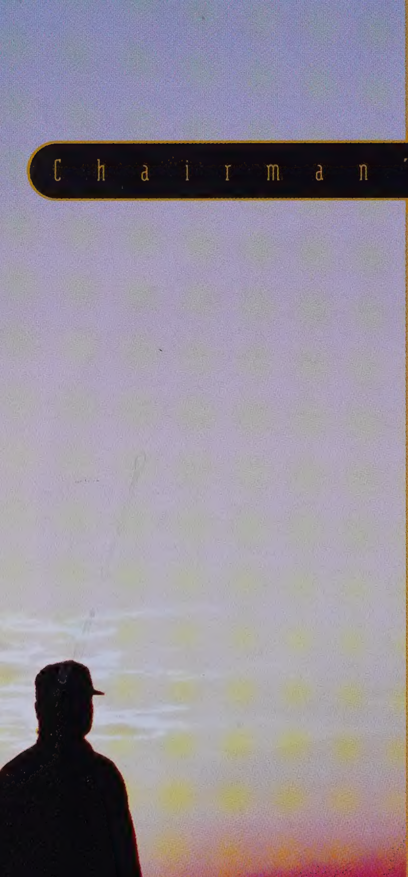
Mr. Lee is an independent businessman, director and officer of several public and private corporations. He is CEO of Dan Oil, former President of Cabos Resources, President of Alberta Resource Management Company, former Chairman and CEO of Independent Energy Inc. and former Vice President of Sprott Securities Limited.

The first company to join the Ag Growth team was Batco Manufacturing Ltd. of Swift Current, Saskatchewan. This transaction was closed on December 8, 1997. Batco started as a small machine shop in 1992 with $125,000 in revenue, building and marketing an innovative line of belt conveyors targeted at handling specialty grains. For the year ended March 31, 1998 Batco achieved revenues of over $3,500,000 and is positioned for strong growth as it capitalizes on its recently established distribution network encompassing 37 states. Batco, along with nine other companies, was featured as one of Canada's Hottest Startups in the September 1997 issue of Profit Magazine.

On January 17, 1998, we continued with the implementation of our business plan by signing a purchase agreement with Wheatheart Hydrostatic and Machine. Wheatheart is a prime example of the kind of company that can contribute to our strategy. The company was established over a quarter of a century ago in Wartime, Saskatchewan as an on-farm manufacturer of hydraulic bin sweeps. Wheatheart evolved into a mature company with diverse product offerings and above average profit margins. Through the years the company has remained a strong regional player, but through the alliance of our companies the Wheatheart product line will take advantage of our existing distribution network south of the border, positioning the company for significant new growth as we achieve penetration into the extensive US market.

We closed the Wheatheart acquisition on May 15, 1998 with a $5.5 million dollar senior debt financing from the Toronto Dominion Bank and a private placement of securities. This financing provided funds to purchase the assets and business of Wheatheart as well as providing the company with the additional working capital necessary to grow and expand its existing business.

Chairman's & President's Report



With the merger of these two companies we are confident of significantly increasing revenues in the current period with an even greater impact on the bottom line. Management will be aggressively pursuing further acquisitions over the next twelve months in an effort to further expand our catalogue of products. The synergies related to a wider product offering will enhance our ability to attract new distributors and consequently achieve continued geographic expansion and revenue growth. The increased volume of raw materials with the combined entities will result in purchasing advantages that will serve to increase margins of the business units.

International trends including population growth and increasing standards of living are resulting in an increased demand for foodstuffs and an increased demand for quality. This in turn is fuelling the drive towards continuous cropping and crop diversification. Domestic trends including the abolition of the Crow Benefit and rail line abandonment are propelling the shift towards larger farms, greater business sophistication, and value-added processing in an effort to maintain market share in the competitive global marketplace. These trends have triggered a fundamental change in the farming techniques and practices necessary to succeed.

Ag Growth's strategy is to build an extensive product offering that accommodates and benefits from this evolution. An investment in Ag Growth is essentially a grassroots investment in many of the agricultural equipment products that epitomize the entrepreneurial spirit and innovation of prairie people. Our goal is to consolidate many of the implement manufacturers that dot the prairie landscape and, through teamwork and cooperation, enhance the marketing operations and strength of these companies to better compete in an the international marketplace.

Agriculture is sometimes viewed as a staid and dormant industry by outside observers. However, a dynamic transformation is taking place which provides fantastic opportunities for companies that have the foresight to position themselves to meet the needs of the new marketplace. Conversely, companies that do not embrace change will find themselves unable to maintain market share. The fragmented nature of the shortline agricultural equipment industry presents us with an exciting opportunity to build a world class manufacturing company that is both dynamic and highly profitable. We invite you as shareholders and potential investors to share in our vision for the future and capitalize on the vast opportunities presented by the agricultural sector over the next decade.

Mr. Jack Lee
Chairman of the Board

Mr. Robert Stenson
President
and Chief Executive Officer

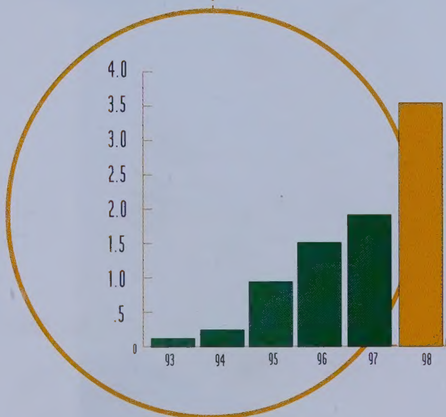
Mr. Robert Stenson, President and Chief Executive Officer
Mr. Stenson is an entrepreneur, starting his first company at the age of nineteen. Mr. Stenson later obtained his MBA from Western University. In 1995 Mr Stenson joined his brother Art Stenson, as Vice President of Batco Manufacturing Ltd.

The agricultural industry has long been challenged with the primary function of producing, storing and distributing adequate food stocks. The manufacturing of agricultural equipment in support of this function has become a multi-billion dollar a year industry in North America. The prairie provinces of Canada, and in particular Saskatchewan, are widely recognized as the hotbed of innovation within the shortline ag equipment industry.

The result of this innovation has been the emergence of a vibrant cottage industry literally teeming with innovation. Most of the companies are still owned and operated by their founders. While their products are innovative and they have enjoyed regional market acceptance and profitability, many of these companies lack either the resources, expertise or inclination to take the next step in their development.

We believe that an excellent opportunity exists for public involvement in the shortline ag equipment industry. Ag Growth can focus the resources and expertise required to realize the potential of the innovation inherent in these companies.

Our first acquisition, Batco Manufacturing Ltd., is a shining example of what can be achieved through focused innovation. During the second year of operations, Batco identified an underdeveloped niche in the market place that beckoned its creativity. Setting aside all other products, Batco concentrated on developing an innovative line of belt conveyors targeted at the emerging specialty crops market. The result has been outstanding growth.



Batco sales growth in millions of dollars

Operational Report

Today Batco continues to be driven by market responsive research and development. Batco's founder and President personally directs R&D on a daily hands-on basis. As a young and aggressive company, Batco is able to fast track R&D, giving it a distinct speed-to-market advantage.

Batco has focused its marketing efforts on geographic diversification. New applications including corn, soybeans, rice and peanuts are creating new markets for our existing product line. Our success in opening new markets is evidenced by our growth in sales to the USA, which is now pushing three times the industry benchmark.

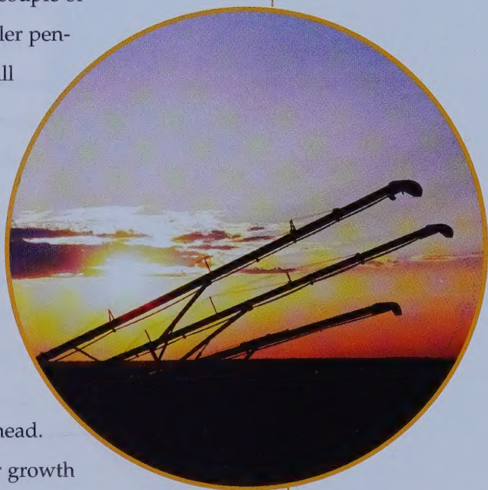
Most of our markets in the USA are only one year into their development. As we can reasonably expect three years to grow a particular market to any semblance of maturity, we are confident sales in these markets will continue to benefit from significant growth. Our only mature U.S. market is the Dakotas where we are entering our fifth season. Sales in the Dakotas continue to show growth, the result of both market acceptance and the introduction of new products.

Now that most of the groundwork has been laid for the US distribution network, some of our focus can be returned to increasing our penetration in Canada. While we enjoy a dominant market share, further dealer development will compliment current market trends which indicate wider product acceptance.

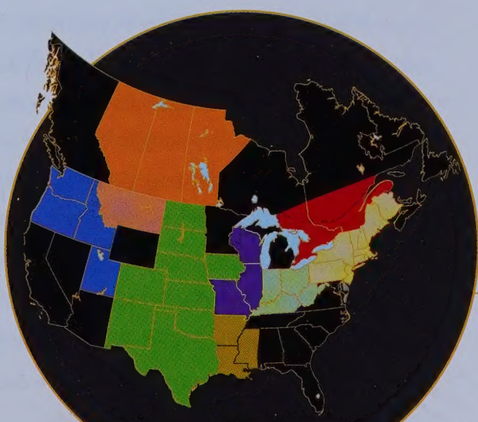
What's on the horizon? Fuelled by the investment of new capital, Batco has taken a huge step this past year, growing sales by 85% and net income by 235%. Today's volume is providing substantial purchasing gains on input costs. The synergies created by the Wheatheart acquisition will further enhance purchasing power. Furthermore, the Wheatheart product line will benefit greatly from Batco's extensive U.S. distribution network.

To date Batco has benefited from its innovation and its focused approach to marketing. In the future a new 12,000 square foot building expansion will enable us to realize enormous opportunities in process efficiencies and throughput.

We believe very strongly in our formula for growth. Geographic diversification has given us the ability to spread our risk. The next couple of years will be spent maturing our markets through greater dealer penetration in both Canada and the USA. Continued emphasis will be placed on fast-tracking research and development. We are in the process of launching a new swing away model, a field loader and a direct drive unit. Aggressive trade show participation will support these initiatives. Priority in the months ahead will be given to a major project with an original equipment manufacturer which will challenge Ag Growth's R&D personnel at both Batco and Wheatheart.



We look forward to building on Batco's success in the years ahead. Our employees will be presented with many opportunities for growth and personal development. An employee stock purchase program is expected to be introduced in the upcoming year to encourage employees to participate in what we believe to be a very bright future.



North America distribution network by region

The fiscal year ended March 31, 1998 was a period of significant growth and change for Ag Growth Industries. Our first year as a publicly traded company saw revenue almost double and profit more than triple. We have continued to invest heavily in research and development and at year end were nearing completion of a new production facility to allow for further growth and cost savings. Additional capital was raised to facilitate these expenditures as well as to allow the company to further pursue other acquisition opportunities. Overall, 1998 will be remembered as a watershed year for our company and one that we believe will provide the foundation for Ag Growth to continue to grow and prosper well into the next century.

Revenues for the twelve month period ended March 31, 1998 were $3,549,198, an increase of 85% over the $1,922,631 reported in fiscal 1997. The growth in revenue was achieved primarily through developing and expanding our distribution network in the United States. Export sales accounted for approximately 70% of total 1998 sales compared to 40% in 1997. The company was able to maintain a strong gross margin of 39% during this period of rapid sales growth.

General and administrative expenses were $1,103,876 in fiscal 1998 compared to $732,828 in 1997, an increase of 50%. The increase was required to support substantial revenue growth and the expanded scope of the consolidated entity's operations. Recent additions to the management and sales teams and increased sales commissions increased the total of management wages, office wages, and sales wages and commissions to $404,872 in 1998, an increase of 54% over 1997. Furthermore, advertising, promotion and travel expenditures increased 34% from $85,061 in 1997 to $114,192 in the current year, and vehicle expenses increased $43,012 or 77% over the prior year. Delivery expenses increased $63,253 or 280% from 1997, as a result of increased sales and the increase in export sales. Overall, general and administrative expenses as a percentage of sales have decreased, from 38% in 1997 to 31% in 1998.

Amortization for the twelve months ended March 31, 1998 was $122,449 compared to $85,096 in 1997, an increase of 44%. This was primarily the result of increased amortization of capitalized research and development costs.

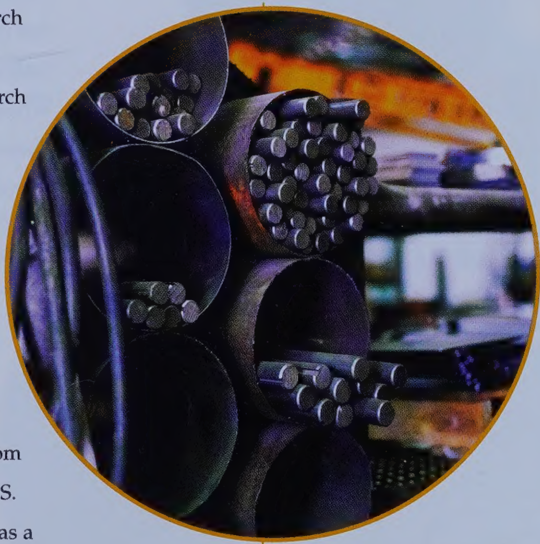
Ag Growth was not taxable for the twelve months ended March 31, 1998 due to the availability of a tax loss carryforward from previous years.

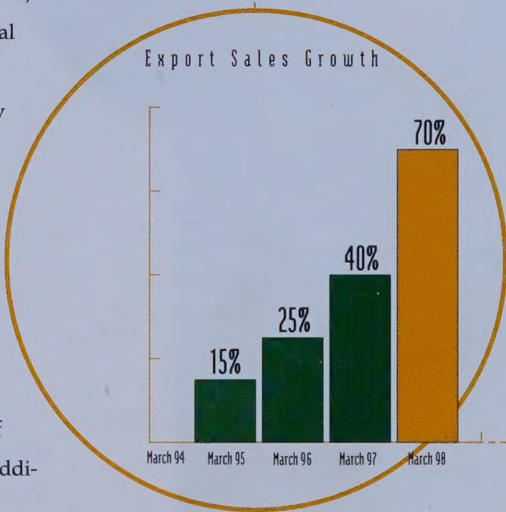
Net income for the year was $281,658 compared to income of $83,860 in 1997. This represents an increase of 235%. In summary, the increase was achieved through revenue growth, a consistent margin, and decreasing general and administrative costs as a percentage of sales.

Working capital at March 31, 1998 was $688,973 compared to $334,226 at March 31, 1997. Accounts receivable increased 50%, from $478,618 to $718,156, largely as a result of increased sales in the U.S. Increased sales demand necessitated higher inventory levels and, as a result, inventory increased 39% to $616,258 in 1998.

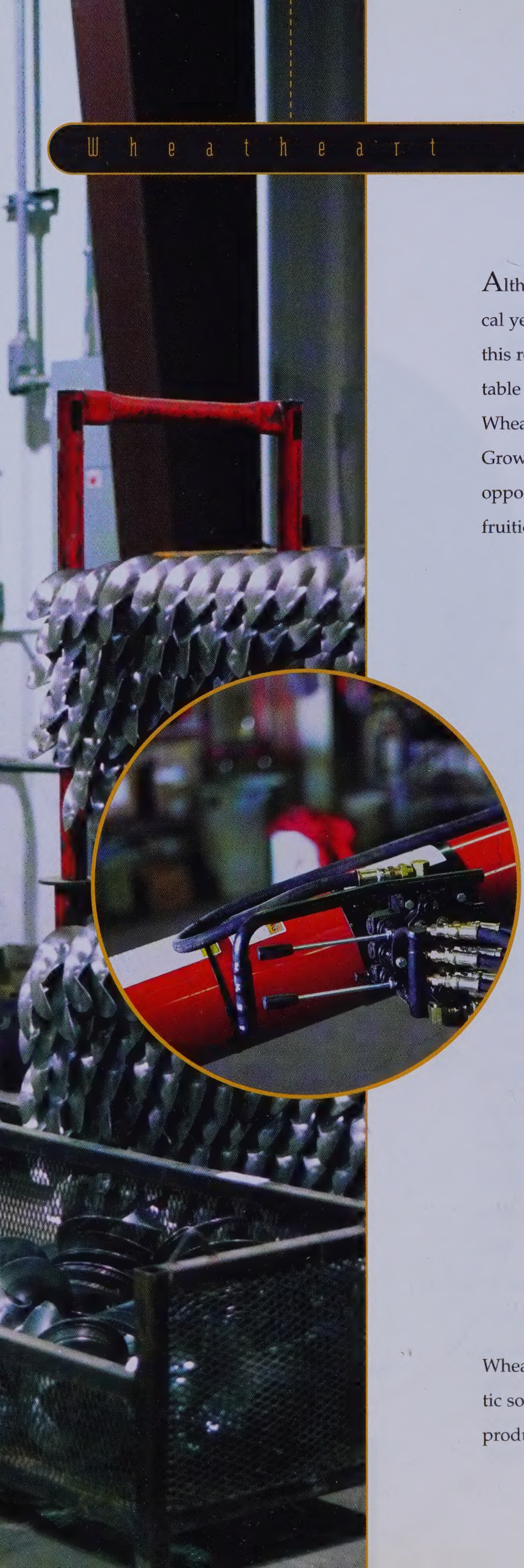
The deposit of $250,000 relates to the Wheatheart acquisition and, subsequent to year end, was paid as part of the compensation to the vendors. Current liabilities have increased $486,494, largely due to $151,567 payable related to the construction of the new building. Also, promissory notes in the amount of $155,000 became payable in fiscal 1999.

Property and equipment has increased $582,712, due primarily to construction on the new facility in the amount of $492,231 and the related land purchase of $72,500. Non-current assets also include $212,713 of deferred acquisition costs that relate to the acquisition of Wheatheart Hydrostatic that closed on May 15, 1998. The deferred costs relate primarily to legal and audit fees. Long-term debt has increased due to the mortgage used to finance the construction of the new building. Also, on December 8, 1997, the company issued a convertible debenture in the amount of $500,000. During the period the company raised, net of expenses, additional equity of $858,454.





US sales as
a % of total sales



Wheatheart

Although the acquisition of Wheatheart officially closed after our fiscal year end, its importance to Ag Growth's future justifies inclusion in this report. Wheatheart brings an impressive earnings history to the table and is an excellent synergistic fit with Batco. Moreover, the Wheatheart acquisition is fundamental to the implementation of Ag Growth's long-term strategy. Wheatheart's profile is typical of many opportunities targeted by Ag Growth. This acquisition is evidence of fruition and lays the groundwork for further acquisitions.

Wheatheart Profile:

Established as an on the farm manufacturing operation in 1973.

Moved to Saskatoon in 1981.

Product line broadened over time to include:

- hydraulic bin sweeps
- hydraulic wheel move auger kits
- hydraulic transfer augers
- hydraulic post hole augers
- hydraulic post pounders

Expanded manufacturing capacity further in 1992 and 1997.

Achieved excellent success on a regional basis with dominant market share, broad dealer penetration and strong brand name recognition.

Regional success negated the need to expand geographic market.

Partners desired a long-term exit strategy.

Wheatheart's goal is to provide farmers with fast, convenient hydrostatic solutions for time consuming, labor intensive tasks. The company's product applications are targeted at grain handling and fencing.

The ongoing demographic trend in the age and number of farmers and the size of farming operations, has encouraged the market to seek products that provide labor savings and convenience. Wheatheart's hands-on knowledge of farmers' needs, combined with an ability to recognize the value of innovations, has contributed to the development of a very successful business.

We are already witnessing synergies between Wheatheart and Batco. In April the Wheatheart line was introduced to Oklahoma and Kansas through trade shows attended by Batco and its regional distributor. Sales results were immediate and substantial. In Canada, several Wheatheart dealers have expressed interest in the Batco line. Both companies have benefited from joint purchasing power. A purchasing group has been formed to look into a host of other cost-saving opportunities.

We are encouraged by this initial success. The employees of both companies have demonstrated their ability to work together on many fronts. We look forward to the results of their efforts.

AUDITORS' REPORT

To the Directors of
AG GROWTH INDUSTRIES INC.

We have audited the consolidated balance sheet of AG GROWTH INDUSTRIES INC. as at March 31, 1998 and the consolidated statements of income and retained earnings, and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Saskatoon, Saskatchewan
June 5, 1998

Meyers Norris Penny.

Chartered Accountants

AG GROWTH INDUSTRIES INC.

CONSOLIDATED BALANCE SHEET

MARCH 31, 1998

	1998	1997
ASSETS		
CURRENT		
Cash	$ **221,450**	13,007
Accounts receivable	**718,157**	478,618
R&D investment tax credits receivable [Note 2]	**103,424**	103,424
Inventory	**616,258**	442,045
Prepaid expenses	**9,753**	1,710
Deposit [Note 5]	**250,000**	-
	1,919,042	1,038,804
PROPERTY AND EQUIPMENT [Note 3]	**802,327**	219,615
DEFERRED DEVELOPMENT COSTS [Note 4]	**283,837**	162,521
R&D INVESTMENT TAX CREDITS [Note 2]	**41,957**	-
DEFERRED ACQUISITION COSTS [Note 1 g]	**212,713**	-
DEFERRED FINANCE CHARGES	**10,753**	700
	$ **3,270,629**	1,421,640
LIABILITIES		
CURRENT		
Bank advances [Note 6]	$ **248,725**	108,934
Operating loan [Note 7]	**59,592**	152,433
Accounts payable and accrued liabilities	**478,577**	401,882
Building construction payable [Note 8]	**151,567**	-
Current portion of long-term debt	**291,608**	41,329
	1,230,069	704,578
LONG-TERM DEBT [Note 9]	**667,758**	738,356
CONVERTIBLE DEBENTURES [Note 10 g]	**500,000**	-
	2,397,827	1,442,934
SHAREHOLDERS' EQUITY		
SHARE CAPITAL [Note 10]	**612,538**	100
RETAINED EARNINGS (DEFICIT)	**260,264**	(21,394)
	872,802	(21,294)
	$ **3,270,629**	1,421,640

Approved on behalf of the Board

Director
Jim Hutch

Director
Gary Anderson

AG GROWTH INDUSTRIES INC.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

YEAR ENDED MARCH 31, 1998

	1998	1997
SALES	$ 3,549,198	1,922,631
COST OF GOODS SOLD	2,173,418	1,177,383
GROSS MARGIN	1,375,780	745,248
OTHER INCOME		
Recovery of research and development	-	64,325
Sundry income	9,754	7,115
	9,754	71,440
	1,385,534	816,688
EXPENSES		
Accounting and legal	22,635	14,999
Advertising, promotion and travel	114,192	85,061
Amortization	122,449	85,096
Bad debts	11,725	7,500
Bank charges and interest	38,810	22,612
Delivery	85,788	22,535
Equipment lease	13,630	11,543
Insurance	23,918	15,449
Interest on long-term debt	29,485	33,435
Management wages	222,011	144,148
Memberships, fees and dues	2,231	1,268
Miscellaneous	13,844	6,096
Office supplies	9,615	6,329
Office wages	59,071	54,444
Rent	43,524	39,700
Repairs and maintenance	14,947	12,149
Sales wages and commissions	123,790	64,965
Taxes and licenses	9,885	16,123
Telephone	21,954	18,203
U.S. exchange	1,096	165
Utilities	20,891	15,185
Vehicle	98,385	55,823
	1,103,876	732,828
NET INCOME FOR THE YEAR	281,658	83,860
DEFICIT, BEGINNING OF YEAR	(21,394)	(105,254)
RETAINED EARNINGS (DEFICIT), END OF YEAR	$ 260,264	(21,394)
EARNINGS PER SHARE (Note 11)	$ 0.092	0.042
FULLY DILUTED EARNINGS PER SHARE (Note 11)	$ 0.084	0.042

AG GROWTH INDUSTRIES INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED MARCH 31, 1998

	1998	1997
CASH PROVIDED BY (USED FOR) THE FOLLOWING ACTIVITIES		
OPERATING		
Net income	$ 281,658	83,860
Items not involving cash		
Depreciation and amortization	122,449	85,096
Net change in non-cash working capital related to operations		
Receivables	(239,539)	(309,455)
Inventory	(174,213)	(67,329)
Prepaid expenses and other assets	(8,043)	2,753
Accounts payable and accrued liabilities	76,695	159,569
Building construction payable	151,567	-
	210,574	(45,506)
INVESTING		
Additions to property and equipment	(628,058)	(38,006)
Proceeds from sale of property and equipment	-	3,000
Deposit on purchased agreement	(250,000)	-
Additions to deferred acquisition and financing costs	(223,675)	-
Additions to development costs (net of refundable R&D investment credits)	(197,510)	(68,808)
R & D investment tax credits earned	(41,957)	-
	(1,341,200)	(103,814)
FINANCING		
Proceeds from long-term financing (net of debt repayment)	179,681	40,075
Proceeds from convertible debenture	500,000	-
Proceeds from share capital issuance (Note 10 b)	612,438	-
	1,292,119	40,075
NET INCREASE (DECREASE) IN CASH	161,493	(189,395)
BANK INDEBTEDNESS, BEGINNING OF YEAR	(248,360)	(58,965)
BANK INDEBTEDNESS, END OF YEAR	$ (86,867)	(248,360)

Bank Indebtedness, end of year comprised of:

	1998	1997
Cash	$ 221,450	13,007
Bank advances	(248,725)	(108,934)
Operating loans	(59,592)	(152,433
	$ (86,867)	(248,360)

AG GROWTH INDUSTRIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 1998

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following accounting policies:

a) Basis of Presentation

The Company has consolidated the assets, liabilities, revenues and expenses of all subsidiaries after the elimination of inter-company transactions and balances. The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, Batco Manufacturing Ltd. and Wheatheart Manufacturing Ltd. (formerly 621895 Saskatchewan Ltd.)

Ag Growth Industries Inc. acquired Batco Manufacturing Ltd. by means of a share exchange takeover. The nature of this share exchange was such that the acquisition is accounted for using reverse takeover accounting which requires that Batco Manufacturing Ltd. be treated as the purchaser. As a result, although the consolidated financial statements are issued in the name of the legal parent, Ag Growth Industries Inc., the consolidated financial statements are a continuation of the financial statements of the legal subsidiary, Batco Manufacturing Ltd. The comparative figures disclosed in the financial statements are those of Batco Manufacturing Ltd.

(b) Inventories

Finished goods and work in progress are valued at the lower of manufactured standard cost which includes materials used and labour hours charged plus an allocation of overhead costs. Raw material is valued at the lower of invoice cost and net realizable value.

(c) Capital assets

Capital assets are recorded at cost. Amortization is provided on the diminishing balance method and straight line method over the estimated useful life of the assets at the following annual rates:

Buildings	4% - 10%
Manufacturing equipment	30%
Office equipment	20%
Trade show equipment	20%
Automotive equipment	20%
Computer equipment	30%
Dies, jigs and moulds	20% straight line

In the year of acquisition, amortization is taken at one-half of the above rates. No amortization has been taken on buildings under construction in the current year.

(d) Deferred development costs

Deferred development costs consist of expenses incurred in the testing and evaluation of products and the design, construction and testing of pre-production prototypes. The costs are reduced by tax credits earned on qualified expenditures and are amortized on the straight line basis over 5 years.

(e) Deferred financing costs

Deferred financing costs are amortized on the straight line basis over five years.

(f) Revenue recognition

The Company recognizes revenue when products are shipped.

(g) Deferred acquisition costs

Deferred acquisition costs consist of costs directly related to the purchase of the assets and business of Wheatheart Hydrostatic and Machine (A Partnership), a short-line agricultural equipment operation (Note 20 a). The costs will be allocated to the asset purchase price.

2. R&D INVESTMENT TAX CREDITS RECEIVABLE

The current balance of research and development investment tax credits represents the refundable tax credits earned by the Company as a Canadian - Controlled Private Corporation. The long term portion of research and development investment tax credits represent the non-refundable credits earned by the Company in the current year as a publicly-controlled corporation, which may only be applied against future corporate income taxes payable.

3. PROPERTY AND EQUIPMENT

	1998			1997
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 82,500	-	82,500	10,000
Buildings	106,128	19,875	86,253	90,061
Building under construction	492,231	-	492,231	-
Manufacturing equipment	174,632	118,383	56,249	60,436
Office equipment	15,020	5,528	9,492	6,385
Trade show displays	7,017	1,814	5,203	6,038
Automotive equipment	75,089	34,668	40,421	30,169
Computer equipment	12,465	2,379	10,086	-
Dies, jigs and mould	45,520	30,282	15,238	9,492
Leasehold improvements	8,295	3,641	4,654	7,034
	$ 1,018,897	216,570	802,327	219,615

4. DEFERRED DEVELOPMENT COSTS

	1998	1997
Net deferred development costs, beginning of year	$ 162,521	131,841
Development costs incurred during the year	239,467	107,908
Investment tax credits earned	(41,957)	(39,099)
	360,031	200,650
Amortization	(76,194)	(38,129)
Net deferred development costs, end of year	$ 283,837	162,521

5. DEPOSIT

The deposit relates to funds required to be held in trust for the purchase of the assets of Wheatheart Hydrostatic and Machine (A Partnership) on May 15, 1998 (Note 20a). These funds were placed in a Guaranteed Investment Certificate maturing April 29, 1998.

6. BANK ADVANCES

The bank overdraft is secured by a general security agreement on all Company assets and a specific security agreement on inventory and accounts receivable.

7. **OPERATING LOAN**

The operating loan bears interest at prime plus 2.75%. The loan is secured by an assignment of accounts receivable and a general security agreement of Batco Manufacturing Ltd. and a corporate guarantee of Ag Growth Industries Inc.

8. **BUILDING CONSTRUCTION PAYABLE**

During the year Batco Manufacturing Ltd. commenced construction of a new building. The building construction payable consists of $102,322 of progress billings payable at March 31, 1998 and a holdback payable of $49,245. The building construction payable will be paid with loan proceeds pre-approved by Southwest Credit Union Ltd. and the Business Development Bank of Canada.

9. **LONG-TERM DEBT**

		1998			1997
		Total	Current Portion	Long-term Portion	Total
Southwest Credit Union	#1	$ 57,916	6,762	51,154	$ 64,601
	#2	99,129	1,517	97,612	-
Business Development Bank	#1	66,720	16,680	50,040	83,400
	#2	131,920	16,320	115,600	148,240
	#3	98,903	15,003	83,900	-
Shareholders' advances		28,475	-	28,475	483,444
Promissory notes		476,303	235,326	240,977	-
		$ 959,366	291,608	667,758	$ 779,685

The Southwest Credit Union Ltd. loan #1 against which a specific security agreement on equipment and a promissory note of Batco Manufacturing Ltd. are pledged as collateral, bears interest at prime plus 3.0%. The loan is repayable in monthly installments of $975 including principal and interest.

The Southwest Credit Union Ltd. loan #2 against which a mortgage on property owned and a general security agreement of Batco Manufacturing Ltd., and a corporate guarantee of Ag Growth Industries Inc. are pledged as collateral, bears interest at prime plus 1.50%. The loan is repayable on the basis of a fifteen year amortization period in monthly installments with principal repayments commencing upon completion of construction. The total authorized amount of the loan is $270,000 of which $99,129 was advanced at March 31, 1998.

The Business Development Bank of Canada loan #2 against which land and buildings owned and a general security agreement of Batco Manufacturing Ltd., and a corporate guarantee of Ag Growth Industries Inc., and an assignment of promissory notes are pledged as collateral, bears interest at 9.90%. The loan is repayable in monthly installments of $1,360 plus interest.

The Business Development Bank of Canada loan #3 against which land and buildings owned and a general security agreement of Batco Manufacturing Ltd., and a corporate guarantee of Ag Growth Industries Inc. are pledged as collateral, bears interest at 8.30%. The loan is repayable in monthly installments of $1,667 plus interest, with principal repayments commencing June, 1998. The total authorized amount of the loan is $300,000 of which $98,903 was advanced at March 31, 1998.

The estimated principal payments due in each of the next five years are as follows:

1999	$ 291,608
2000	144,563
2001	145,534
2002	146,632
2003	50,804
	$ 779,141

Shareholders' advances are unsecured. There are no definite terms of repayment nor provision for interest. The promissory notes are payable to certain shareholders of the Company on the following terms; $155,000 due March 8, 1998 (paid May 18, 1998); and the balance payable in four equal annual installments beginning December 8, 1998 bearing interest at 7% per annum.

10. SHARE CAPITAL

The disclosed share structure is that of Ag Growth Industries Inc. The comparative figure shown for share capital is that of Batco Manufacturing Ltd.

a) Authorized:

Unlimited number of common shares

Unlimited number of preferred shares, issuable in series, rights and privileges to be set by directors upon issue.

	Stated Number	Amount
b) Common shares issued:		
Share capital of Batco Manufacturing Ltd. prior to takeover	2,692,567	$ 519,525
Shares issued for cash (Note 10 c)	1,000,000	125,000
Issued pursuant to public offering (Note 10 d)	1,000,000	250,000
Share options exercised (Note 10 e)	92,250	23,062
	4,784,817	917,587
Share issuance costs		(59,033)
Consolidation elimination due to reverse takeover		(246,016)
		$ 612,538

c) Pursuant to an Escrow Agreement dated April 21, 1997, 1,000,000 common shares issued to the Founders of Ag Growth Industries Inc. have been placed in escrow and are only releasable upon the written consent of the Executive Director of the Alberta Securities Commission as to one-third per year on the first, second and third anniversary dates of the completion of the share exchange transaction with Batco Manufacturing Ltd. which occurred on December 8, 1997.

d) Pursuant to a final prospectus dated April 30, 1997, the Company issued 1,000,000 common shares at a price of $250,000. According to the terms of the Agency agreement, the Agent was granted 100,000 options to purchase common shares at a price of $0.25 per share, expiring December 26, 1998.

e) Pursuant to the Company's stock option plan the Company has granted to officers and directors options to purchase 200,000 common shares at $0.25 per share expiring May 23, 2002; 269,256 options exercisable at a price of $1.07 per share expiring December 16, 2002 and 101,475 options exercisable at a price of $1.09 per share expiring February 11, 2003. During the year, 92,250 options were exercised at a price of $.25 per share.

f) On December 8, 1997 the Company issued 2,692,567 common shares in connection with its share exchange transaction with Batco Manufacturing Ltd. Of this amount, 1,992,000 common shares are subject to escrow agreements which provide that: 920,000 escrowed common shares will be released as to one-third per year on the first, second and third anniversary dates of the completion of the share exchange transaction; and 1,072,000 escrowed common shares will be released at one common share for each $0.75 of cash flow (as defined by the Alberta Stock Exchange Form 10C) of the Company, on a consolidated basis, with a maximum of one-third of the 1,072,000 shares being released in any one year.

g) On December 8, 1997 the Company issued $500,000 of 8.0% convertible debentures. These debentures can be converted for common shares of the Company at the price of $0.50 per share until December 8, 1999 when, if they have not been converted, they must be redeemed by the Company at face value.

11. EARNINGS PER SHARE

Basic earnings per share has been calculated on the weighted average number of common shares outstanding during the period of 3,053,589 (1997- 2,000,000).

For purposes of calculating the fully diluted earnings per share, it was assumed that if all debentures were converted and all options and warrants exercised for common shares as of April 1, 1997, the earnings per share would have been calculated based on 3,721,606 shares (1997 - 2,000,000) as the weighted average number of common shares outstanding. In addition to the change in the weighted average number of common shares outstanding, the earnings applicable to the common shares was increased by the reduction of interest expense after income taxes ($29,300) that would have resulted had the conversions of the debentures and the exercising of the options and warrants occurred April 1, 1997.

12. FAIR VALUE DISCLOSURE

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ (86,867)	$ (86,867)	(248,360)	(248,360)
Deposit	250,000	250,000	-	-
Accounts receivable	718,157	718,157	478,618	478,618
Accounts payable	630,144	630,144	401,882	401,882
Long-term debt	959,366	959,366	779,685	779,685
Convertible debentures	500,000	500,000	-	-

The estimated fair values of the financial assets and liabilities included in current assets and current liabilities in these financial statements approximate their carrying amounts on the balance sheet due to the relatively short period to maturity of these items.

Debt

The fair values of long-term debt and convertible debentures are estimated using discounted cash flows based upon the Company's current borrowing rates for similar borrowing arrangements.

13. MEASUREMENT UNCERTAINTY

R&D investment tax credits earned are based upon assertions made by management and include management's estimates of the R&D component of employee wages, materials and overhead costs directly attributable to R&D activities. Such claims including the estimates made by management are subject to audit verification by Revenue Canada. As the Company has not claimed R&D investment tax credits previously, management has no prior experience to assess the accuracy of its estimates, actual R&D investment tax credits earned may differ from this estimate.

14. CREDIT CONCENTRATIONS

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. Group sales are concentrated in the agricultural sector, but credit exposure is limited due to the Company's large customer base in Western Canada and the United States.

15. PRIOR PERIOD ADJUSTMENT

As a result of an accounting error, the March 31, 1997 inventory did not include an allocation for overhead. Management has estimated the overhead component of inventory at March 31, 1997 to be $43,209. The March 31, 1997 financial statements have been restated resulting in an increase in inventory of $43,209 and a decrease in cost of goods sold of $43,209. The current year's deficit at the beginning of the year has been decreased by $43,209.

16. COMMITMENTS

During the year the Company committed to construct a new building for an estimated total cost of $560,000. As at March 31, 1998, $492,231 of the cost of the construction had been incurred.

17. LEASE COMMITMENTS

Rental payments payable under a long-term lease of premises are $3,250 per month. The lease expires November 30, 1998.

18. LOSS CARRY FORWARD

The Company has available $212,551 (1997 - $373,873) of losses which may be carried forward and deducted against future taxable income. No tax benefit has been realized in the financial statements for these losses. If unutilized the losses will expire as follows:

2002	$ 26,000
2004	145,187
2005	41,364

19. RELATED PARTY TRANSACTIONS

During the year ended March 31, 1998 the Company purchased land which was owned 50% by a shareholder of the Company. The total purchase price was $72,500 which represented the fair value at the purchase date.

20. SUBSEQUENT EVENTS

a) On January 17, 1998, the Company and a newly created wholly-owned subsidiary company, Wheatheart Manufacturing Ltd., entered into an Asset Purchase Agreement with Wheatheart Hydrostatic and Machine (A Partnership). Under the terms of the Asset Purchase Agreement, Wheatheart Manufacturing Ltd. purchased the business by buying the following assets of Wheatheart Hydrostatic and Machine (A Partnership) and its related North Dakota sales corporation on May 15, 1998 at the following prices:

	Estimated Maximum Purchase Price
Prepaid expenses	$ 10,000
Inventory	1,850,000
Land and buildings	1,100,000
Equipment	300,000
Goodwill (includes intellectual property)	4,275,000
	$ 7,535,000

The final purchase price is dependent upon verification of inventory purchased, which as of June 5, 1998 had not been received.

Other terms of the Asset Purchase Agreement are as follows:

i) The purchase price of the fixed assets and prepaid expenses was paid, first by the application of a $250,000 deposit; secondly by the issuance of 250,000 Class B participating non-voting shares of Wheatheart Manufacturing Ltd. at an issue price of $1.10 per share for a total of $275,000; and thirdly, the balance by issuance of Class C redeemable preferred non-voting shares of Wheatheart Manufacturing Ltd. at an issue price of $1.00 per share. Immediately after closing, the Class C redeemable preferred non-voting shares were redeemed for their issue price of $1.00 per share, and the redemption price was paid in cash.

ii) The purchase price of the inventory was paid for, first by the application on May 15, 1998 of a $500,000 deposit made on April 30, 1998; secondly by a $500,000 payment made on May 15, 1998; and thirdly by application of part or all of a $850,000 deposit (held in trust) made May 15, 1998, to be paid upon the final determination of the value of the inventory.

iii) Class B participating non-voting shares of Wheatheart Manufacturing Ltd. were exchanged for an equivalent number of Ag Growth common shares on a one-for-one basis.

iv) Ag Growth Industries Inc. issued 1,000,000 common share purchase warrants to Wheatheart Hydrostatic and Machine (A Partnership) on closing. The warrants may be exercised at approximately $1.20 per share. The warrants expire on September 17, 1998.

b) On April 30, 1998 the Company issued 468,334 of a newly designated series of 7% cumulative redeemable convertible preferred shares at a price of $1.50 per share for total proceeds of $702,500. These shares carry an annual dividend of $.105 per share payable annually from May 1, 1999 to May 1, 2003. The shares are not redeemable by the Company prior to May 1, 2000. The shares may be redeemed thereafter at the option of the Company at a price of $2.50 per share provided that the weighted average trading price of the Company's common shares during a consecutive twenty day trading period exceeds $2.50. If the common shares of the Company have not traded for twenty consecutive trading days prior to March 1, 2003 at a price which exceeds $2.50 per share then the Company must redeem the preferred shares on May 1, 2003 at a price of $1.50 per share. The shares are convertible at the option of the holder for common shares on a gradually increasing ratio from a 1:1 basis until April 30, 2000 to a 1.67:1 basis after April 30, 2002.

c) On May 14, 1998 the Company issued 350,000 special warrants, at a price of $1.25 per special warrant. These special warrants are exercisable at any time by the holder, but are automatically exercised one year from the date of issuance. The special warrants are converted to common shares of the Company on a one-to-one basis.

d) On May 20, 1998 the Company issued 800,000 common shares at a price of $1.25 per share for total proceeds of $1,000,000.

e) On May 27, 1998 the Agent who was granted 100,000 common share options as part of the Agency Agreement exercised 50,000 options at a price of $.25 per share.

f) Debt Financing

Wheatheart Manufacturing Ltd. has, subsequent to the year-end of the Company, secured a commitment for debt financing to fund accounts receivable, inventory, the asset purchase agreement with Wheatheart Hydrostatic and Machine (A Partnership) and repay some existing term debt of Batco Manufacturing Ltd.

These financing arrangements are in the form of a $1,000,000 demand loan bearing interest at prime plus .5% per annum and a $5,500,000 term loan repayable over a maximum term of 5 years.

The commitment letter also allows for credit lines of $500,000 U.S. to engage in foreign exchange contracts forward up to twelve months in advance and $250,000 U.S. for uncleared foreign exchange lines.

The combined financing is secured by a line of credit agreement, a general security agreement taking an interest in all present and after acquired property with a first charge against inventory and accounts receivable, a general assignment of book debts, assignment of All Risks insurance, collateral mortgage on the land and buildings in Saskatoon, Saskatchewan, and a second position in land and buildings in Swift Current, Saskatchewan, registered subordination of any shareholder loans and promissory notes payable to shareholders, postponement of any convertible/exchangeable debentures issued by the borrower and a corporate guarantee limited to $6,500,000 of Batco Manufacturing Ltd. and Ag Growth Industries Inc.

21. COMPARATIVE FIGURES

Certain of the prior year's comparative figures, which were audited by another firm of Chartered Accountants, have been restated to conform to the current year's method of presentation. Net earnings were not affected except as disclosed in Note 15.

HOTTEST

"Someone's got to handle all this food"

Swift Current, Sask. is not normally considered a hub of entrepreneurship. But Batco Manufacturing Ltd. is hoping to change that. Founded in 1992 by president Art Stenson, Batco first took a shot at manufacturing industrial-strength hand trucks and four-wheeled push carts. But after a year of slow sales, it was clear the company needed a new direction.

Finally, a local agricultural-equipment producer passed Stenson a tip: Farmers were crying for a product that would gently handle high-protein but fragile crops such as peas and beans. Traditional screw augers geared for grain were butchering these legumes, which were enjoying a renaissance as prairie farmers began rotating crops more often. Farmers complained that handling was damaging as much as 5% of their harvests. Batco designed a belt-driven conveyor that reduced the stress of loading and unloading as crops moved from field to storage bin to market. To make sure it was on the right track, Batco took a prototype to trade shows. "Not being actual farmers, we wanted to get public opinion and develop something that would generate high interest," says vice-president Rob Stenson, Art's MBA-trained brother. The fine-tuning continued once the product hit the market: "We sure did a lot of warranty work during the first release of the product," Stenson laughs.

Of course, all that development required capital. "We had a lot of doors slammed in our face because of our bad track record," says Stenson. "We were turned down by every major bank in the area." Persistence finally turned up funds from a variety of sources, including a local credit union and the Business Development Bank of Canada.

Today, Batco's 1300 Series conveyors load and unload any crop with a mother's tender touch. Sales, which hit $2.5 million in 1996, could reach $4 million by the end of this year. Stenson says the products, which sell for $5,000 to $20,000, reduce damage in crop-transfer situations to just 0.2%. For many farmers, that offers an annual saving of $5,000 to $6,000.

Most marketing is done through trade shows, but Batco also concentrates on building a strong dealer network. "Every farm is different," says Stenson, "from Ontario to Saskatchewan. Distributors know how to market in their own region."

New orders have kept Batco running hard. "We've had to build an entirely new manufacturing facility to meet demand," says Stenson. The 14,000-square-foot plant is scheduled to open in November. To continue expansion, Batco intends to tap the public markets. By September it was expected to have completed a reverse takeover of a junior capital pool company. That will result in a new name and a listing on the Alberta Stock Exchange that will enable the company to raise funds through public share issues.

For the future, the trends seem all on Batco's side. Overall demand for food is expected to grow 25% over the next 10 years as developing countries face rising demand for protein. As farmers around the world strive to maximize their yields, Batco intends to help. With its conveyors now selling in 35 American states and on their way to Australia, all signs point to growth, says Stenson. "Someone's got to handle all this food." *Jakub Danielak*

Rob and Art Stenson: "We had a lot of doors slammed in our face"

Batco's kinder, gentler crop-handler

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